



A U D I T O R - G E N E R A L

The accounting officer
Municipal manager
Ehlanzeni District Municipality
PO Box 3333
NELSPRUIT
1200

30 November 2009

Reference: 09154REG08/09

Dear Sir

Report of the Auditor-General on the financial statements and performance information of Ehlanzeni District Municipality for the year ended 30 June 2000

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and [section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA).
2. The audit report is issued as a final draft pending our receipt of all other documents that will be included in the annual report that will contain the audited financial statements is received.
3. Once these documents are received we will read them to establish if there are any inconsistencies with the audited financial statements. You will then be requested to amend the other information or the financial statements in respect of any inconsistencies. Once this process has been satisfactorily completed we will issue the final signed audit report.
4. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
5. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
6. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
7. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report, will be tabled.
8. Your cooperation to ensure that all these requirements are met would be much appreciated.



A U D I T O R - G E N E R A L

Kindly acknowledge receipt of this letter.

Yours sincerely

Signed

.....
Senior Manager: Mpumalanga

Enquiries: Name and surname
Telephone: (013) 756 0800
Fax: (012) 756 0879

**REPORT OF THE AUDITOR-GENERAL TO THE MPUMALANGA LEGISLATURE AND
THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE
INFORMATION OF THE EHLANZENI DISTRICT MUNICIPALITY FOR THE YEAR ENDED
30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Ehlanzeni District Municipality which comprise the statement of financial position as at 30 June 2009, and the statement of financial performance, the statement of changes in net assets and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages [xx] to [xx].

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Statements of Generally Recognised Accounting Practice (Statements of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the Ehlanzeni District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Ehlanzeni District Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with the Statements of GRAP and in the manner required by the MFMA.

Emphasis of matter

Without qualifying my opinion, I draw attention to the following matter:

Irregular expenditure

9. As disclosed in note 34 to the financial statements, irregular expenditure to the amount of R1 057 697 was incurred, as a proper tender process had not been followed.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

10. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. Accordingly I do not express an opinion thereon.

Governance framework

11. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

12. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

| No. | Matter | Y | N |
|---|---|---|---|
| Clear trail of supporting documentation that is easily available and provided in a timely manner | | | |
| 1. | No significant difficulties were experienced during the audit concerning delays or the availability of requested information. | Y | |
| Quality of financial statements and related management information | | | |
| 2. | The financial statements were not subject to any material amendments resulting from the audit. | Y | |
| 3. | The annual report was submitted for consideration prior to the tabling of the auditor's report. | Y | |
| Timeliness of financial statements and management information | | | |
| 4. | The annual financial statements were submitted for auditing as per the legislated deadlines (section 126 of the MFMA). | Y | |

| No. | Matter | Y | N |
|--|---|-----|---|
| Availability of key officials during audit | | | |
| 5. | Key officials were available throughout the audit process. | Y | |
| Development of and compliance with risk management, effective internal control and governance practices | | | |
| 6. | Audit committee | | |
| | <ul style="list-style-type: none"> The municipality had an audit committee in operation throughout the financial year. | | N |
| | <ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. | Y | |
| | <ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. | | N |
| 7. | Internal audit | | |
| | <ul style="list-style-type: none"> The municipality had an internal audit function in operation throughout the financial year. | Y | |
| | <ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. | Y | |
| | <ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. | | N |
| 8. | There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management. | Y | |
| 9. | There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations. | Y | |
| 10. | The information systems were appropriate to facilitate the preparation of the financial statements. | Y | |
| 11. | A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA. | Y | |
| 12. | Delegations of responsibility are in place, as set out in section 79 of the MFMA. | Y | |
| Follow-up of audit findings | | | |
| 13. | The prior year audit findings have been substantially addressed. | Y | |
| 14. | SCOPA resolutions have been substantially implemented. | N/A | |
| Issues relating to the reporting of performance information | | | |
| 15. | The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete. | | N |
| 16. | Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information. | | N |
| 17. | A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets in terms of section 68 of the MFMA. | Y | |

| No. | Matter | Y | N |
|-----|---|---|---|
| 18. | There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance. | Y | |

13. Based on the assessment of the governance framework, the audit committee did not meet at least four times a year and therefore did not perform its functions. Furthermore, the internal audit unit needs more staff to execute its audit plan during the year and report to an audit committee.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

14. I have reviewed the performance information as set out on pages xx to xx.

The accounting officer's responsibility for the performance information

15. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

16. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
17. In terms of the foregoing my engagement included performing procedures of an audit review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
18. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Lack of implementation of a performance management system

19. The municipality did not implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players, as required in terms of regulations 7 and 8 of the Municipal Planning and Performance Management Regulations, 2001.

Existence and functioning of a performance audit committee

20. The performance audit committee did not:

- meet at least twice during the financial year
- review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality
- review the municipality's performance management system and make recommendations in this regard to the council of the municipality.

APPRECIATION

21. The assistance rendered by the staff of the Ehlanzeni District Municipality during the audit is sincerely appreciated.

Auditor-General.

Nelspruit

30 November 2009



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence